



**OFFICE OF AUDITOR OF STATE  
STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

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NEWS RELEASE

FOR RELEASE

March 23, 2004

Contact: Andy Nielsen  
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Shellsburg, Iowa.

The City's receipts totaled \$887,328 for the year ended June 30, 2003. The receipts included \$228,285 in property tax, \$307,194 from charges for service, \$241,975 from other governments and \$11,999 in interest on investments.

Disbursements for the year totaled \$815,985, and included \$280,518 for capital projects, \$151,010 for business type activities and \$133,789 for public works.

The report contains recommendations to the City Council and other City officials. For example, the City should review its control activities to obtain maximum internal control possible, amend the budget in sufficient amounts in accordance with Chapter 348.18 of the Code of Iowa before disbursements are allowed to exceed the budget, and establish sinking and reserve accounts as required by the Sewer Revenue Bond Resolution. The City has responded favorably to the comments.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

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**CITY OF SHELLSBURG**  
**INDEPENDENT AUDITOR'S REPORTS**  
**FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2003**

## Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Financial Statements:	<u>Exhibit</u>	
Combined Statement of Cash Transactions – All Fund Types	A	8-9
Comparison of Receipts, Disbursements and Changes in Balances – Actual to Budget	B	11
Statement of Indebtedness	C	12-13
Notes to Financial Statements		14-18
Supplemental Information:	<u>Schedule</u>	
Combining and Individual Schedules of Cash Transactions:		
General Fund	1	21-23
Special Revenue Funds	2	24-25
Debt Service Fund	3	26
Capital Projects Funds	4	27
Enterprise Funds	5	28
Trust Funds	6	29
Note Maturities	7	30
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		31-32
Schedule of Findings		33-36
Staff		37

**City of Shellsburg**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Thomas W Busenbark	Mayor	Jan 2004
Shelly A. Kreuter	Mayor Pro tem	Jan 2004
Carla J. Charlier	Council Member	Jan 2004
Steve Ternus	Council Member	Jan 2004
Gary L. Hekel	Council Member	Jan 2006
Tom Harrelson	Council Member	Resigned
Edward E. Shaeffer (Appointed)	Council Member	Jan 2006
Nancy E. Deklotz	City Clerk	Indefinite

**City of Shellsburg**



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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the City of Shellsburg, Iowa, as of and for the year ended June 30, 2003. These financial statements are the responsibility of the City of Shellsburg's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2002.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2002, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Shellsburg as of and for the year ended June 30, 2003, and its indebtedness at June 30, 2003, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 8, 2004 on our consideration of the City of Shellsburg's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The supplemental information included in Schedules 1 through 7 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2002, as discussed in the th paragraph, is fairly stated, in all material respects, in relation to the aforementioned financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

January 8, 2004

## **Financial Statements**

City of Shellsburg  
 Combined Statement of Cash Transactions  
 All Fund Types  
 Year ended June 30, 2003

	Governmental Fund	
	General	Special Revenue
Receipts:		
Property tax	\$ 153,506	37,485
Tax increment financing collections	-	48,205
Other city tax	8,305	1,405
Licenses and permits	3,034	-
Use of money and property	4,248	525
Intergovernmental	21,957	76,366
Charges for service	74,499	-
Miscellaneous	4,067	-
Total receipts	269,616	163,986
Disbursements:		
Public safety	59,789	19,917
Public works	64,300	69,489
Culture and recreation	47,513	6,866
General government	28,035	6,866
Debt service	-	-
Capital projects	-	-
Business type activities	-	-
Total disbursements	199,637	103,138
Excess (deficiency) of receipts over (under) disbursements	69,979	60,848
Other financing sources (uses):		
Bond proceeds	-	-
Operating transfers in	40,231	7,788
Operating transfers out	(35,612)	(46,729)
Total other financing sources (uses)	4,619	(38,941)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	74,598	21,907
Balance beginning of year	300,979	140,945
Balance end of year	\$ 375,577	162,852

See notes to financial statements.

Types		Proprietary Fund Type	Fiduciary Fund Type	Total (Memorandum Only)
Debt Service	Capital Projects	Enterprise	Trust	
37,294	-	-	-	228,285
-	-	-	-	48,205
1,264	-	-	-	10,974
-	-	-	-	3,034
-	-	7,226	-	11,999
-	143,652	-	-	241,975
-	-	232,695	-	307,194
-	-	-	31,595	35,662
<u>38,558</u>	<u>143,652</u>	<u>239,921</u>	<u>31,595</u>	<u>887,328</u>
-	-	-	-	79,706
-	-	-	-	133,789
-	-	-	2,187	56,566
-	-	-	-	34,901
79,495	-	-	-	79,495
-	280,518	-	-	280,518
-	-	151,010	-	151,010
<u>79,495</u>	<u>280,518</u>	<u>151,010</u>	<u>2,187</u>	<u>815,985</u>
(40,937)	(136,866)	88,911	29,408	71,343
-	53,152	-	-	53,152
36,375	48	900	593	85,935
-	-	(3,594)	-	(85,935)
<u>36,375</u>	<u>53,200</u>	<u>(2,694)</u>	<u>593</u>	<u>53,152</u>
(4,562)	(83,666)	86,217	30,001	124,495
<u>39,381</u>	<u>201</u>	<u>545,587</u>	<u>34,700</u>	<u>1,061,793</u>
<u>34,819</u>	<u>(83,465)</u>	<u>631,804</u>	<u>64,701</u>	<u>1,186,288</u>

**City of Shellsburg**

City of Shellsburg

Comparison of Receipts, Disbursements and Changes in Balances -

Actual to Budget

Year ended June 30, 2003

	Actual	Amended Budget	Variance Favorable (Unfavorable)	Net as % of Amended Budget
Receipts:				
Property tax	\$ 228,285	226,913	1,372	101%
Tax increment financing collections	48,205	35,000	13,205	138%
Other City tax	10,974	10,129	845	108%
Licenses and permits	3,034	2,092	942	145%
Use of money and property	11,999	16,700	(4,701)	72%
Intergovernmental	241,975	89,270	152,705	271%
Charges for service	307,194	253,796	53,398	121%
Miscellaneous	35,662	-	35,662	
Total receipts	<u>887,328</u>	<u>633,900</u>	<u>253,428</u>	<u>140%</u>
Disbursements:				
Public safety	79,706	87,427	7,721	91%
Public works	133,789	111,900	(21,889)	120%
Culture and recreation	56,566	90,256	33,690	63%
General government	34,901	52,951	18,050	66%
Debt service	79,495	37,468	(42,027)	212%
Capital projects	280,518	2,300,000	2,019,482	12%
Business type activities	151,010	298,975	147,965	51%
Total disbursements	<u>815,985</u>	<u>2,978,977</u>	<u>2,162,992</u>	<u>27%</u>
Excess (deficiency) of receipts over (under) disbursements	71,343	(2,345,077)		
Other financing sources, net	<u>53,152</u>	<u>2,300,000</u>		
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	124,495	(45,077)		
Balance beginning of year	<u>1,061,793</u>	<u>958,417</u>		
Balance end of year	<u>\$1,186,288</u>	<u>913,340</u>		

See notes to financial statements.

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City of Shellsburg  
Statement of Indebtedness  
Year ended June 30, 2003

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Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Water	Jan 1, 1994	3.60 - 6.00%	\$ 135,000
Street Improvements	Jul 1, 1996	4.90 - 5.80	200,000
Municipal Building	Apr 1, 2000	3.60 - 6.00	320,000
Total			
General obligation bonds:			
Sewer Improvement	Apr 16, 2003	3.00%	\$ 135,000
Revenue bonds:			
Sewer	Apr 16, 2003	3.00%	\$ 1,847,000

See notes to financial statements.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
85,000	-	10,000	75,000	4,830
115,000	-	20,000	95,000	6,455
295,000	-	15,000	280,000	16,638
<u>\$ 495,000</u>	<u>-</u>	<u>45,000</u>	<u>450,000</u>	<u>27,923</u>
-	54,502	5,000	49,502	5
-	18,470	-	18,470	69

City of Shellsburg

Notes to Financial Statements

June 30, 2003

**(1) Summary of Significant Accounting Policies**

The City of Shellsburg is a political subdivision of the State of Iowa located in Benton County. It was first incorporated in 1870 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, general government and business type activities.

A. Reporting Entity

For financial reporting purposes, the City of Shellsburg has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City had no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Benton County Assessor's Conference Board, Benton County Emergency Management Commission and Benton County Joint E911 Service Board.

B. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and balances. The various funds and their designated purposes are as follows:

Governmental Funds

General Fund - The General Fund is the general operating fund of the City.

All general tax receipts and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid through other funds.

Special Revenue Funds – The Special Revenue Funds are utilized to account for receipts derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

Debt Service Fund – The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation long-term debt.

Capital Projects Funds – The Capital Projects Funds are utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through Enterprise Funds.

#### Proprietary Funds

Enterprise Funds – The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

#### Fiduciary Funds

Trust Funds – The Trust Funds are used to account for monies and properties received and held by the City in a trustee capacity. These include Expendable Trust Funds and a Non-Expendable Trust Fund.

### C. Basis of Accounting

The City of Shellsburg maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

### D. Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Non-Expendable Trust Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities.

### E. Total (Memorandum Only)

The total column on the combined statement of cash transactions is captioned "Memorandum Only" to indicate it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

## **(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2003 were covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

**(3) Notes Payable**

Annual debt service requirements to maturity for general obligation notes are as follows:

Year Ending June 30.	General Obligation Notes	
	Principal	Interest
2004	\$ 45,000	25,563
2005	55,000	23,142
2006	55,000	20,128
2007	60,000	17,062
2008	35,000	13,653
2009	35,000	11,652
2010	25,000	9,613
2011	25,000	8,200
2012	25,000	6,775
2013	30,000	5,325
2014	30,000	1,785
2015	30,000	1,800
Total	<u>\$ 450,000</u>	<u>144,698</u>

During the year ended June 30, 2003, the City retired \$45,000 of notes.

On April 16, 2003, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$135,000 of general obligation sewer improvement bonds with interest at 3.00% per annum. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of paying the cost of work and facilities useful for the collection, treatment and disposal of sewage and industrial wastes in a sanitary manner. The City will receive disbursements from the Trustee upon request to reimburse the City for costs as they are incurred. At June 30, 2003, the City had drawn \$54,502, including a \$1,350 initiation fee, of the \$135,000 authorized. Wells Fargo Bank Iowa, N.A. has the remaining \$80,498 held in trust, which the City will request as the project progresses. A formal repayment schedule has not yet been adopted. However, the City has paid \$5,000 in principal and \$5 in interest on the bonds.

On April 16, 2003, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$1,847,000 of sewer revenue bonds with interest at 3.0% per annum. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of paying the cost of constructing improvements and extensions to the municipal sanitary sewer system of the City. The City will receive disbursements from the Trustee upon request to reimburse the City for the costs as they are incurred. At June 30, 2003, only the \$18,470 initiation fee had been drawn. Wells Fargo Bank Iowa, N.A. has the remaining balance of \$1,828,530 held in trust, which the City will request as the project progresses. A formal repayment schedule has not yet been adopted. However, the City has paid \$69 in interest on the bonds.

**(4) Development Agreement**

The City has entered into a development agreement to assist in an urban renewal project. The City agreed to rebate 65.87% of the incremental tax paid by a developer in exchange for street improvements made by the developer. The incremental taxes to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of ten years beginning December 1, 2002. The total to be paid by the City under this agreement is not to exceed \$24,128.

During the year ended June 30, 2003, the City rebated \$579 of incremental tax under this agreement. The maximum remaining balance at June 30, 2003 was \$23,549.

**(5) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2003 was \$10,357, equal to the required contribution for the year.

**(6) Compensated Absences**

City employees accumulate a limited amount of earned by unused vacation, personal, or compensatory hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, personal and compensatory hours payable to employees at June 30, 2003, primarily related to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 4,000
Personal	7,000
Compensatory time	<u>6,000</u>
Total	<u>\$ 17,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2003.

**(7) Risk Management**

The City of Shellsburg is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks did not exceed commercial insurance coverage in the fiscal year ended June 30, 2003.

**(8) Budget Overexpenditure**

Per the Code of Iowa, disbursements may not legally exceed amounts budgeted at the functional level. During the year ended June 30, 2003, disbursements in the public works and debt service functions exceeded the amounts budgeted.

**(9) Related Party Transactions**

The City had business transactions totaling \$1,446 between the City and City officials during the year ended June 30, 2003.

**(10) Deficit Balance**

The City has a deficit balance in the Capital Projects, Waste Water Treatment Fund of \$83,465. The deficit balance was a result of project costs incurred prior to the draw down of available funds. The deficit will be eliminated upon receipt of bond proceeds.

**(11) Construction Contract/Commitments**

During the year ended June 30, 2003, the City entered into a construction contract totaling \$1,848,597 for the Wastewater Treatment Plant DIV II. The City paid \$108,091 on this contract during the year ended June 30, 2003. The balance of \$1,740,506 remaining at June 30, 2003 will be paid as work on the project progresses.

During the year ended June 30, 2003, the City entered into a construction contract totaling \$502,502 for the Wastewater Treatment Plant DIV I. The City did not make any payments on this contract during the year. The contract will be paid as work on the project progresses.

## **Supplemental Information**

**City of Shellsburg**

City of Shellsburg  
Combining Schedule of Cash Transactions  
General Fund  
Year ended June 30, 2003

	General	General Reserves	Total
Receipts:			
Property tax	\$ 153,506	-	153,506
Other city tax:			
Mobile home tax	452	-	452
Utility tax replacement excise tax	5,271	-	5,271
Cable franchise fee	2,582	-	2,582
	<u>8,305</u>	-	<u>8,305</u>
Licenses and permits:			
Liquor	1,445	-	1,445
Cigarette	244	-	244
Building	1,255	-	1,255
Pet	90	-	90
	<u>3,034</u>	-	<u>3,034</u>
Use of money and property:			
Interest on investments	4,248	-	4,248
Intergovernmental:			
State allocation	10,212	-	10,212
STEP grant	5,389	-	5,389
Enrich Iowa Grant	1,256	-	1,256
County library allocation	5,100	-	5,100
	<u>21,957</u>	-	<u>21,957</u>
Charges for service:			
Garbage fees	64,450	-	64,450
Cemetery fees	4,800	-	4,800
Police fees	4,209	-	4,209
Library fees	599	-	599
Park fees	400	-	400
Other	41	-	41
	<u>74,499</u>	-	<u>74,499</u>
Miscellaneous:			
Contributions	300	590	890
Sale of property and merchandise	876	1,424	2,300
Sales and fuel tax refunds	507	370	877
	<u>1,683</u>	<u>2,384</u>	<u>4,067</u>
Total receipts	<u>267,232</u>	<u>2,384</u>	<u>269,616</u>

**Schedule 1**

City of Shellsburg  
Combining Schedule of Cash Transactions  
General Fund  
Year ended June 30, 2003

	General	General Reserves	Total
Disbursements:			
Public safety:			
Police:			
Personal services	37,345	-	37,345
Services and commodities	10,440	-	10,440
	<u>47,785</u>	-	<u>47,785</u>
Fire protection:			
Services and commodities	10,201	-	10,201
Ambulance:			
Services and commodities	1,803	-	1,803
	<u>59,789</u>	-	<u>59,789</u>
Public works:			
Roads, bridges, sidewalks:			
Personal services	4,138	-	4,138
Services and commodities	2,065	-	2,065
	<u>6,203</u>	-	<u>6,203</u>
Street lighting:			
Services and communitites	9,827	-	9,827
Garbage:			
Services and commodities	48,270	-	48,270
	<u>64,300</u>	-	<u>64,300</u>
Culture and recreation:			
Library:			
Personal services	13,038	-	13,038
Services and commodities	11,220	-	11,220
	<u>24,258</u>	-	<u>24,258</u>
Parks:			
Personal services	2,282	-	2,282
Services and commodities	2,525	2,455	4,980
	<u>4,807</u>	<u>2,455</u>	<u>7,262</u>
Cemetery:			
Personal services	1,109	-	1,109
Services and commodities	8,453	6,431	14,884
	<u>9,562</u>	<u>6,431</u>	<u>15,993</u>
	<u>38,627</u>	<u>8,886</u>	<u>47,513</u>

City of Shellsburg  
Combining Schedule of Cash Transactions  
General Fund  
Year ended June 30, 2003

	General	General Reserves	Total
Disbursements (continued):			
General government:			
Mayor and council members:			
Personal services	4,767	-	4,767
City Clerk:			
Personal services	9,845	-	9,845
Services and commodities	2,558	-	2,558
	<u>12,403</u>	-	<u>12,403</u>
Legal services			
Services and commodities	3,916	-	3,916
City hall and general buildings:			
Services and commodities	6,949	-	6,949
	<u>28,035</u>	-	<u>28,035</u>
Total disbursements	<u>190,751</u>	<u>8,886</u>	<u>199,637</u>
Excess (deficiency) of receipts over (under) disbursements	<u>76,481</u>	<u>(6,502)</u>	<u>69,979</u>
Other financing sources (uses):			
Operating transfers in (out):			
General:			
General Reserves	(26,369)	-	(26,369)
General	-	26,369	26,369
Special Revenue:			
Road Use Tax	-	11,000	11,000
Employee Benefits	(8,650)	-	(8,650)
Tax Increment Financing	862	-	862
Enterprise:			
Water	-	1,000	1,000
Waste Water	-	1,000	1,000
Expendable Trust:			
Library Books and Furnishings Trust	(593)	-	(593)
Total other financing sources (uses)	<u>(34,750)</u>	<u>39,369</u>	<u>4,619</u>
Excess of receipts and other finances sources over disbursements and other financing uses	41,731	32,867	74,598
Balance beginning of year	<u>287,300</u>	<u>13,679</u>	<u>300,979</u>
Balance end of year	<u>\$ 329,031</u>	<u>46,546</u>	<u>375,577</u>

See accompanying independent auditor's report.

**Schedule 2**

City of Shellsburg  
Combining Schedule of Cash Transactions  
Special Revenue Funds  
Year ended June 30, 2003

	Road Use Tax	Employee Benefits	Tax Increment Financing	Total
Receipts:				
Property tax	\$ -	37,485	-	37,485
Tax increment financing collections	-	-	48,205	48,205
Other city tax:				
Mobile home tax	-	111	-	111
Utility tax replacement excise tax	-	1,294	-	1,294
	-	1,405	-	1,405
Use of money and property:				
Interest on investments	-	-	525	525
Intergovernmental:				
Road use tax allocation	76,366	-	-	76,366
Total receipts	76,366	38,890	48,730	163,986
Disbursements:				
Public safety:				
Police:				
Personal services	-	19,917	-	19,917
Public works:				
Roadway maintenance:				
Personal services	25,436	14,309	-	39,745
Services and commodities	29,744	-	-	29,744
	55,180	14,309	-	69,489
Culture and recreation:				
Parks:				
Personal services	-	3,653	-	3,653
Cemetery:				
Personal services	-	3,213	-	3,213
	-	6,866	-	6,866
General government:				
Mayor and council members:				
Personal services	-	1,045	-	1,045
City Clerk:				
Personal services	-	4,485	-	4,485
City hall and general buildings:				
Services and commodities	-	1,336	-	1,336
	-	6,866	-	6,866
Total disbursements	55,180	47,958	-	103,138

City of Shellsburg  
Combining Schedule of Cash Transactions  
Special Revenue Funds  
Year ended June 30, 2003

	Road Use Tax	Employee Benefits	Tax Increment Financing	Total
Excess (deficiency) of receipts over (under) disbursements	21,186	(9,068)	48,730	60,848
Other financing sources (uses):				
Operating transfers in (out):				
General:				
General	-	8,650	(862)	7,788
General Reserves	(11,000)	-	-	(11,000)
Debt Service	-	-	(35,729)	(35,729)
Total other financing sources (uses)	(11,000)	8,650	(36,591)	(38,941)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	10,186	(418)	12,139	21,907
Balance beginning of year	65,721	19,401	55,823	140,945
Balance end of year	\$75,907	18,983	67,962	162,852

See accompanying independent auditor's report.

**Schedule 3**

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City of Shellsburg  
Schedule of Cash Transactions  
Debt Service Fund  
Year ended June 30, 2003

Receipts:	
Property tax	<u>\$ 37,294</u>
Other city tax:	
Mobile home tax	100
Utility tax replacement excise tax	<u>1,164</u>
	<u>1,264</u>
Total receipts	<u>38,558</u>
Disbursements:	
Debt service:	
Principal redeemed	50,000
Interest paid	27,997
Administration fees	919
Contractual services	<u>579</u>
Total disbursements	<u>79,495</u>
Deficiency of receipts under disbursements	<u>(40,937)</u>
Other financing sources:	
Operating transfers in:	
Special Revenue:	
Tax Increment Financing	35,729
Enterprise :	
Waste Water	<u>646</u>
Total other financing sources	<u>36,375</u>
Deficiency of receipts and other financing sources under disbursements	(4,562)
Balance beginning of year	<u>39,381</u>
Balance end of year	<u>\$ 34,819</u>

See accompanying independent auditor's report.

City of Shellsburg  
Combining Schedule of Cash Transactions  
Capital Projects Funds  
Year ended June 30, 2003

	Municipal Building	Waste Water Treatment	Total
Receipts:			
Intergovernmental:			
Community Development Block Grants/State's Program	\$ -	143,652	143,652
Disbursements:			
Capital projects:			
Capital outlay	201	280,317	280,518
Deficiency of receipts under disbursements	(201)	(136,665)	(136,866)
Other financing sources:			
Bond proceeds	-	53,152	53,152
Operating transfer in:			
Enterprise:			
Waste Water	-	48	48
Total other financing sources	-	53,200	53,200
Deficiency of receipts and other financing sources under disbursements	(201)	(83,465)	(83,666)
Balance beginning of year	201	-	201
Balance end of year	\$ -	(83,465)	(83,465)

See accompanying independent auditor's report.

**Schedule 5**City of Shellsburg  
Combining Schedule of Cash Transactions

## Enterprise Funds

Year ended June 30, 2003

	<u>Water</u>	<u>Waste Water</u>	<u>Waste Water Reserve</u>	<u>Total</u>
Receipts:				
Use of money and property:				
Interest on investments	\$ 2,348	4,878	-	7,226
Charges for service:				
Sale of water	86,382	-	-	86,382
Sewer rental fees	-	141,950	-	141,950
Miscellaneous	1,739	2,624	-	4,363
	<u>88,121</u>	<u>144,574</u>	<u>-</u>	<u>232,695</u>
Total receipts	<u>90,469</u>	<u>149,452</u>	<u>-</u>	<u>239,921</u>
Disbursements:				
Business type activities:				
Personal services	45,736	59,434	-	105,170
Services and commodities	27,763	18,077	-	45,840
Total disbursements	<u>73,499</u>	<u>77,511</u>	<u>-</u>	<u>151,010</u>
Excess of receipts over disbursements	<u>16,970</u>	<u>71,941</u>	<u>-</u>	<u>88,911</u>
Other financing sources (uses):				
Operating transfers in (out):				
General:				
General Reserves	(1,000)	(1,000)	-	(2,000)
Debt Service	-	(646)	-	(646)
Capital Projects:				
Waste Water Treatment	-	(48)	-	(48)
Enterprise:				
Waste Water	-	-	900	900
Waste Water Reserve	-	(900)	-	(900)
Total other financing sources (uses)	<u>(1,000)</u>	<u>(2,594)</u>	<u>900</u>	<u>(2,694)</u>
Excess of receipts and other financing sources over disbursements and other financing uses	15,970	69,347	900	86,217
Balance beginning of year	<u>217,825</u>	<u>327,762</u>	<u>-</u>	<u>545,587</u>
Balance end of year	<u>\$ 233,795</u>	<u>397,109</u>	<u>900</u>	<u>631,804</u>

See accompanying independent auditor's report.

City of Shellsburg  
Combining Schedule of Cash Transactions

Trust Funds

Year ended June 30, 2003

	Expendable Trusts			Non-Expendable Trust	Total
	Library Books and Furnishings Trust	Library Flower Fund	Library	Cemetery Perpetual Care	
Receipts:					
Miscellaneous:					
Contributions	\$ 2,447	-	26,943	-	29,390
Perpetual care payments	-	-	-	2,200	2,200
Miscellaneous	5	-	-	-	5
Total receipts	<u>2,452</u>	<u>-</u>	<u>26,943</u>	<u>2,200</u>	<u>31,595</u>
Disbursements:					
Culture and recreation:					
Library:					
Services and commodities	<u>2,146</u>	<u>41</u>	<u>-</u>	<u>-</u>	<u>2,187</u>
Excess (deficiency) of receipts over (under) disbursements	306	(41)	26,943	2,200	29,408
Other financing sources:					
Operating transfer in:					
General:					
General	<u>593</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>593</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements	899	(41)	26,943	2,200	30,001
Balance beginning of year	<u>5,122</u>	<u>78</u>	<u>-</u>	<u>29,500</u>	<u>34,700</u>
Balance end of year	<u>\$ 6,021</u>	<u>37</u>	<u>26,943</u>	<u>31,700</u>	<u>64,701</u>

See accompanying independent auditor's report.

**Schedule 7**

## City of Shellsburg

## Note Maturities

June 30, 2003

Year Ending June 30,	General Obligation Notes							Total
	Water		Street Improvements		Municipal Building			
	Issued Jan 1, 1994		Issued Jul 1, 1996		Issued Apr 1, 2000			
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2004	5.25%	\$ 10,000	5.50%	\$ 20,000	5.30%	\$ 15,000	45,000	
2005	5.45	10,000	5.60	25,000	5.35	20,000	55,000	
2006	5.60	10,000	5.70	25,000	5.40	20,000	55,000	
2007	5.80	15,000	5.80	25,000	5.45	20,000	60,000	
2008	6.00	15,000		-	5.50	20,000	35,000	
2009	6.20	15,000		-	5.55	20,000	35,000	
2010		-		-	5.65	25,000	25,000	
2011		-		-	5.70	25,000	25,000	
2012		-		-	5.80	25,000	25,000	
2013		-		-	5.85	30,000	30,000	
2014		-		-	5.90	30,000	30,000	
2015		-		-	6.00	30,000	30,000	
Total		<u>\$ 75,000</u>		<u>\$ 95,000</u>		<u>\$ 280,000</u>	<u>450,000</u>	

See accompanying independent auditor's report.



**OFFICE OF AUDITOR OF STATE  
STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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Independent Auditor's Report on Compliance  
and on Internal Control over Financial Reporting

To the Honorable Mayor and  
Members of the City Council:

We have audited the financial statements of the City of Shellsburg, Iowa, as of and for the year ended June 30, 2003, and have issued our report thereon dated January 8, 2004. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2002.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Shellsburg's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City of Shellsburg's operations for the year ended June 30, 2003 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior audit statutory comments have been resolved.

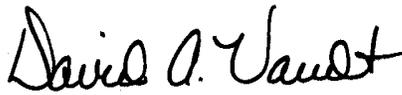
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Shellsburg's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Shellsburg's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

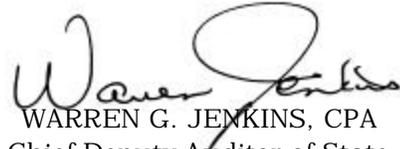
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A) and (B) are material weaknesses. Prior audit reportable conditions have been resolved except for items (A) and (B).

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Shellsburg and other parties to whom the City of Shellsburg may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Shellsburg during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

January 8, 2004

City of Shellsburg

Schedule of Findings

Year ended June 30, 2003

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

(A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One person had control over each of the following areas for the City:

- (1) Cash - preparing bank reconciliations, initiating cash receipts and disbursement transactions and handling and recording cash.
- (2) Investments - detailed record-keeping, custody of investments and reconciling earnings.
- (3) Receipts - collecting, depositing, journalizing and posting.
- (4) Utility receipts - billing, collecting, depositing, posting and reconciling.
- (5) Long-term debt - recording.
- (6) Payroll - preparing and distributing.
- (7) Disbursements - check writing, signing, posting and reconciling.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control activities to obtain the maximum internal control possible under the circumstances.

Response - The Council will review current procedures and implement any possible changes utilizing existing staff.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

(B) Disbursements - The City required only one signature to validate a City check.

Recommendation - To strengthen internal control, each check should be prepared and signed by one person and then the supporting vouchers/invoices and other supporting documentation should be made available along with the check to the second or independent individual for review and countersignature.

Response - The Council will look at the possibility of dual signatures.

Conclusion - Response acknowledged. To strengthen internal control, checks should be reviewed and countersigned.

City of Shellsburg

Schedule of Findings

Year ended June 30, 2003

- (C) Transfers - Transfers between funds or accounts were not always approved by the City Council.

Recommendation - All individual fund and account transfers should be approved by the City Council before the transfer is made. The approval should be documented in the minutes record.

Response - The Council will approve transfers in the future.

Conclusion - Response accepted.

City of Shellsburg

Schedule of Findings

Year ended June 30, 2003

**Part III: Other Findings Related to Required Statutory Reporting:**

- (1) Official Depositories - A resolution naming the official depository has been approved by the City. The maximum deposit amount stated in the resolution was not exceeded during the year ended June 30, 2003.
- (2) Certified Budget - Disbursements during the year ended June 30, 2003 exceeded the amounts budgeted in the public works and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget was not amended because I was using the old method of reconciling instead of the new one that was implemented in the middle of the budget year.

Conclusion - Response acknowledged. The budget should be amended before disbursements exceed the budget.

- (3) Questionable Disbursements - No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (4) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Edward E. Schaefer, Council Member, JEM Video	Internet service	\$ 300
Dennis Deklotz, Spouse of City Clerk, General Contracting	Use of lift	300
Steve Ternus, Council Member, Shellsburg Welding	Part and repairs	816
Sheryl Nieland, Librarian	Router	30

In accordance with Chapter 362.5(11) of the Code of Iowa, these transactions do not appear to represent conflicts of interest since total transactions for each individual were less than \$2,500 during the fiscal year.

City of Shellsburg

Schedule of Findings

Year ended June 30, 2003

- (6) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (7) Council Minutes - Except as previously noted, no transactions were found that we believe should have been approved in the Council minutes but were not.

The City did not publish the purpose of claims as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation - The City should comply with the provisions contained in Chapter 372.13(6) of the Iowa Code.

Response - The purpose of the claims will now be published.

Conclusion - Response accepted.

- (8) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (9) Revenue Bond - The City has not established the sinking and reserve accounts required by the sewer revenue bond resolution. In addition, funds were transferred to the Debt Service Fund from the Enterprise, Waste Water Fund and the interest on the debt was paid from the Debt Service Fund.

Recommendation - The City should establish the sinking and reserve accounts and transfer funds as required by the bond resolution. In addition, debt payments for the sewer revenue bond should be made from the sinking account.

Response - The Sinking Account has now been established and all future payments will be made from the Sinking Account instead of Debt Service Fund. The City will establish a Reserve Account.

Conclusion - Response accepted.

- (10) Financial Condition - The Capital Projects, Waste Water Treatment Fund had a deficit balance at June 30, 2003 of \$83,465.

Recommendation - The City should investigate alternatives to eliminate the deficit in order to return this fund to a sound financial position.

Response - The Capital Projects, Waste Water Treatment Fund balance is no longer a deficit. This was a deficit while the City was waiting for payments from a Community Development Block Grant.

Conclusion - Response accepted.

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City of Shellsburg

Staff

This audit was performed by:

Michelle B. Meyer, CPA, Manager  
John G. Vanis, CGFM, Senior Auditor  
Billie Jo Heth, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA  
Deputy Auditor of State